

VELCO ENGINEERING INC.

## FAX TRANSMITTAL COVER SHEET

To: U.S. Department of Justice FAX No. 1-202-307-1454From: M. A. Vela PE No. of Pages incl. cover 2

## Comments:

As a personal and business user of Microsoft products for about  
twenty years I agree completely with the editorial page article  
in the Jan 4 Houston Chronicle article attached.

Microsoft products are generally low priced consumer products  
aimed at the home user. Competitors such as Oracle, Sun and others  
are higher priced producers targeting large corporations. I shudder  
to think what prices would be like if Microsoft had not been around  
and the absence of standards would further compound the users  
problems.

I have been a practicing Consulting Chemical Engineer for about  
25 years.

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# Competition is best way to regulate Microsoft

JAN 4 11:50

By PETER N. GOLDER  
and GERARD J. TELLIS

**D**ESPITE the settlement between Microsoft and the Justice Department, nine states continue to seek stronger restrictions and penalties.

We advise the states' attorneys general to settle and not waste more public money on further legal efforts.

Their fight for additional legal regulations overlooks the extensive evidence that Microsoft must continue to innovate or it will lose its leading position.

The case against Microsoft is based on the belief that market leaders are entrenched, self-serving monopolies that stymie superior products of smaller rivals. This belief is supported by elaborate arguments but scant empirical evidence.

In contrast, our decade-long research of 66 markets refutes the prevailing logic about the entrenched position of market leaders.

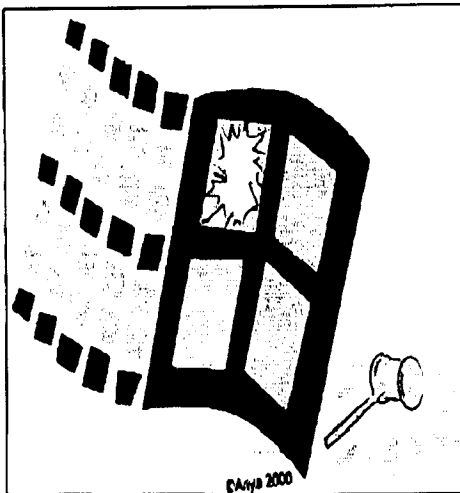
Consider how often market leadership has changed in just a few categories. In video games, market leadership changed from Magnavox to Atari to Nintendo to Sega and now to Sony.

Similarly, in personal computers, market leadership changed from Apple to Tandy to IBM to Compaq and now to Dell. In online service providers, market leadership switched from CompuServe to Prodigy to America Online.

Some of these changes came quickly. Their frequency indicates that a market leader cannot easily hold its position.

What triggers these changes? In most cases, it is the superior quality or the substantially lower price offered by innovative companies.

Many people attribute the success of Microsoft's software applications to the dominance of its Windows operating system. However, the facts support an alternative



Golder, a professor at New York University, and Tellis, a professor at the University of Southern California, are the authors of the recently released *Will and Vision: How Latecomers Grow to Dominate Markets*.

explanation.

Word, Excel and PowerPoint were all unsuccessful when first released, even though they were tied to Microsoft's proprietary operating system. They became successful only through relentless innovation to produce better versions.

Even the Internet browser market, which triggered the case against Microsoft, demonstrated the same pattern.

Before Netscape, Mosaic was the dominant browser. However, Netscape's superior speed and features enabled it to quickly overtake Mosaic.

Microsoft's initial release of Internet Explorer did not succeed because of its poor performance. Persistent improvements in features won the endorsement of reviewers and led to its market leadership.

In our research, we did not find a single

market where a non-innovative leader was able to maintain its dominance.

Many people assume that market pioneers or first movers will be enduring market leaders. Instead, we found that such companies lead in only six of the 66 markets studied, and innovation is essential to their sustained leadership and profitability.

For example, Intel and Sony maintain their leadership in microprocessors and CD players by regularly introducing innovative products, even when they cannibalize still-successful older products. Coca-Cola sustains its lead in the cola market by seizing new distribution channels and continually updating its advertising.

In the other 60 markets, innovation toppled established leaders.

In 1959, Kodak and 3M led the copier market. Analysts believed Xerox (then the Haloid Corp.) had almost no chance to succeed. Yet its revolutionary copier was an immense success and propelled Xerox to market dominance.

Even in the mundane category of disposable diapers, Johnson & Johnson's Chux brand was overtaken by the superior features and lower price of Procter & Gamble's Pampers. Then Kimberly-Clark's further improvements enabled Huggies to wrest market leadership from Pampers.

In all of these markets, costly and distracting antitrust actions were unnecessary. Innovative competitors discovered better ways to serve customers with improved products and lower prices. The results were unequivocal, they cost the public nothing and they were more exacting than legal remedies.

So it will continue to be for Microsoft and other market leaders. They too will begin their own demise the day they cease to innovate. Nimble, innovative rivals are at the gate, ready to administer the law of the market far more effectively than the Justice Department or states can prosecute antitrust cases.